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‘Shock and awe’: 200% Trump tariffs on pharma soon? US faces risk of drug shortages, steep prices

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US President Donald Trump is mulling tariffs on the pharmaceutical sector - as high as 200%! Trump intends to levy substantial import duties on pharmaceutical products, a sector that has largely remained unaffected by his trade policies. Historically, imported medicines have entered the United States without customs duties.
Recent developments indicate a shift in this approach. A trade agreement between the US and European nations has established a 15% tariff on certain European imports, including pharmaceutical products. Trump has indicated potential duties exceeding 200% on medications produced in other regions.

PwC's tax specialist Maytee Pereira characterises Trump's pharmaceutical strategy by stating: "Shock and awe. This is an industry that's going from zero (tariffs) to the potentiality of 200%,” Maytee Pereira told AP.

Trump’s tariff plan for pharma

The proposal to reduce drug costs for Americans through pharmaceutical tariffs could have unintended consequences. Such measures might actually increase prices, create supply chain complications, reduce access to affordable foreign-made generic medications, and lead to medicine shortages, according to the AP report.
"A tariff would hurt consumers most of all, as they would feel the inflationary effect ... directly when paying for prescriptions at the pharmacy and indirectly through higher insurance premiums,'' Diederik Stadig, a healthcare economist with the financial services firm ING, wrote in a commentary last month, adding that lower-income households and the elderly would feel the greatest impact.

This initiative coincides with ongoing pressure on pharmaceutical companies to reduce prices in the United States. Letters have been sent to various companies requesting plans for implementing most-favoured nation pricing domestically.

However, the proposed tariffs include a grace period of 12 to 18 months, allowing pharmaceutical companies to

build inventory reserves and relocate production facilities to the United States, actions some firms have already initiated.

According to Leerink Partners analyst David Risinger's July 29 note, numerous pharmaceutical companies have increased their drug imports and maintained six to 18 months of stock within the United States.

The financial expert David Windley from Jefferies indicated in his analysis that the impact of proposed tariffs scheduled for late 2026 might not be noticeable until 2027 or 2028, as companies would likely build up inventory.

Industry observers anticipate that Trump would likely implement a tariff significantly below 200%. They are also observing whether specific products, particularly low-margin generic medications, would receive exemptions from these tariffs.

According to Stadig's assessment, even a modest 25% tariff would result in a gradual increase of 10% to 14% in US pharmaceutical prices once existing stocks are depleted.

Pharmaceutical companies have increasingly relocated their operations abroad over the past several decades, seeking cost advantages in China and India, whilst benefiting from tax incentives in Ireland and Switzerland. This shift has contributed to a substantial US trade deficit in pharmaceutical products, approaching £150 billion in the previous year.

The global health crisis during COVID-19 highlighted the vulnerabilities of depending on international sources for medical supplies, particularly when nations prioritised their domestic needs. This situation became especially concerning when considering China, a significant supplier and strategic competitor to America.

In April, the US government initiated an investigation into the national security implications of pharmaceutical imports. Under Section 232 of the Trade Expansion Act of 1962, the president holds authority to impose tariffs when national security concerns arise.

Health policy analyst Marta Wosińska at the Brookings Institution advocates for tariffs to protect US medical supplies. She highlighted how the Biden administration's taxation on foreign syringes protected US manufacturers from inexpensive Chinese imports.

Trump advocates for relocating pharmaceutical manufacturing to the United States, suggesting US-manufactured drugs would be exempt from his proposed tariffs.

Pharmaceutical companies are increasing their US investments. In April, Roche, the Swiss pharmaceutical company, announced a $50 billion expansion of its US operations. Johnson & Johnson plans to invest $55 billion in

the United States over four years. Their CEO Joaquin Duato indicated plans to exclusively manufacture US market drugs within the country.
However, establishing new pharmaceutical facilities in the United States requires substantial investment and extended time periods.

Furthermore, US-based manufacturing might still face tariff implications if imported ingredients are taxed. According to Jacob Jensen, trade policy analyst at the American Action Forum, "97% of antibiotics, 92% of antivirals and 83% of the most popular generic drugs contain at least one active ingredient that is manufactured abroad."

The complete protection against tariffs requires establishing the entire supply chain within the United States, according to Pereira.

Whilst branded pharmaceutical companies maintain substantial profit margins allowing them to handle investments and tariff costs, generic manufacturers operate with limited financial flexibility.

Several generic manufacturers might exit the US market due to tariff pressures. This poses significant concerns as generics constitute 92% of US retail and mail-order pharmacy prescriptions.

A temporary production halt at an Indian facility previously resulted in chemotherapy shortages, affecting cancer treatment. "Those are not very resilient markets," Brookings' Wosińska said. "If there's a shock, it's hard for them to recover."

Wosińska contends that tariffs alone cannot convince generic manufacturers to establish US-based facilities without governmental financial support.

"In an ideal world, we would be making everything that's important only in the US,'' Wosińska said. "But it costs a lot of money ... We have offshored so much of our supply chains because we want to have inexpensive drugs. If we want to reverse this, we would really have to redesign our system ... How much are we willing to spend?''